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RR RUEHLMC
DE RUEHMU #1672/01 1872115
ZNR UUUUU ZZH
R 062115Z JUL 07
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 0742
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEHCV/AMEMBASSY CARACAS 1122
RHEHNSC/NSC WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/USDOC WASHDC 0845

UNCLAS SECTION 01 OF 02 MANAGUA 001672

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STATE FOR WHA/CEN, WHA/EPSC, WHA/AND, AND EEB/OMA
STATE PASS TO EX-IM
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN
3134/ITA/USFCS/OIO/WH/MKESHISHIAN/BARTHUR

E.O. 12958: N/A
TAGS: EFIN ECON EPET PGOV PREL NU
SUBJECT: UPDATE ON NICARAGUA'S FOREIGN DEBT

REF: A) MANAGUA 639, B) MANAGUA 371

¶1. (SBU) Summary: Nicaragua continues to reduce its foreign debt load. The commercial debt buy-back program, which will reduce foreign debt claims by USD 1.3 billion, is almost complete. Despite strong lobbying efforts with Iran and Libya, no additional countries have forgiven non-Paris Club bilateral debt, although Taiwan is seriously considering it. As part of the ALBA oil deal with Venezuela, Nicaragua will accrue approximately USD 110 million in debt a year. The IMF and GON are still debating whether this debt should be considered public or private debt, as the national oil company Petronic is the official debtor. Despite President Ortega's rhetoric, the GON's economic team remains committed to reducing Nicaragua's foreign debt load. End Summary.

Overall Foreign Debt Load Continues to Fall

¶2. (SBU) Nicaragua's commercial debt buy back program, which will reduce foreign debt claims by USD 1.3 billion to USD 2.4 billion (190% of exports), is almost complete. Donors have deposited USD 31.8 million in a World Bank (WB) trust fund to assist in the buy-back operation. Once the WB Board approves an IDA-Debt Reduction Facility contribution of USD 36.2 million, the commercial creditors will receive USD 64.4 million, equivalent to 4.95% of the debt. (Note: The excess funds will be used to pay for ancillary expenses such as the audit required by WB; any excess after that will be returned on a pro-rata basis. End Note.)

¶3. (SBU) Nicaragua will enjoy benefits beyond the debt reduction at the completion of this program. Most of the debt is in the hands of "Vulture Funds" which won several judgments against the GON. As a result, Nicaragua had to keep its international reserves in Basil, at an estimated cost of USD 3 million per year in forgone interest income. Its assets and financial flows overseas had to be protected, creating additional costs (i.e. all funds for embassies had to be held in the ambassador's name so they could not be attached.) The GON also spent USD 3 million in legal fees to litigate the cases and protect its assets.

¶4. (SBU) Donor contributions to the operation were:
-- Norway USD 9.8 million
-- Sweden USD 5 million
-- UK USD 3.5 million
-- Netherlands USD 3 million
-- Russia USD 5 million
Finland USD 2 million
-- Nicaragua also put in USD 3.5 million of its own funds.

But Bilateral non-Paris Club debt still on the books
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¶5. (SBU) Despite Ortega's recent tour of Libya and Iran, no additional countries have forgiven non-Paris Club bilateral debt. Costa Rica and Honduras both claim that as poor countries themselves, they should not have to abide by HIPC terms in addressing their debt with Nicaragua. As part of its campaign to maintain state-to-state relations with Nicaragua, Taiwan has promised to "seriously consider" forgiving its bilateral debt. Current bilateral debt holders are (Total USD 1.6 billion in NPV terms):
-- Costa Rica USD 610 million
-- Libya USD 286 million
-- Honduras USD 216 million
-- Taiwan USD 179 million
-- Iran USD 152 million
-- Peru USD 42 million
-- Others USD 150 million

New Debt to Venezuela?

¶6. (SBU) Nicaragua has been accruing debt with Venezuela as part of the ALBA oil deal signed in January (ref A). In the original deal, Venezuela would sell Nicaragua 10,000 barrels of oil products a day at market rates. The GON would pay 60% in 90 days and 40% at 2% interest over 25 years. In May, the terms were revised to: 50% of costs paid in 90 days; with 25% of costs paid into an ALBA fund for development (Note: The purpose of this fund is unclear at this time, but the IMF does not consider it debt. End note); and 25% paid as a 25-year loan, with 1% interest and a two year grace period.

¶7. (SBU) The IMF and GON negotiating teams agree that the Venezuelan oil deal will result in approximately USD 110 million in debt a year (2% of GDP). This rate is lower than originally calculated (USD 300 million a year) because inconsistent Venezuelan supply and limited Nicaraguan storage capacity have reduced the amount of oil products arriving in Nicaragua.

¶8. (SBU) For a time, the FSLN government tried to keep this debt out of the national accounts by claiming it would be accrued by the national oil company Petronic, which they claimed was a private entity. The IMF responded that Petronic is a parastatal; therefore the debt is public debt and must to be reflected on the books. (Note: The terms of the loans are concessional and meet HIPC criteria, so the structure of the deal is not an issue for the IMF. End note.) Reflecting this debt, as well as overall Venezuelan assistance, in the national accounts has become a core issue in the ongoing Poverty Reduction Growth Facility (PRGF) negotiations. Going into the June 25 negotiation session, the IMF claimed the GON team had accepted the IMF's position, but on June 23 President Ortega declared at a public rally that Venezuelan assistance would not be reflected in the national accounts. Negotiations are still ongoing, so the status of this issue is not clear at this point.

Other new loans

¶10. (SBU) Budget deficit financing from 2007-2010 will include loans from the IMF, IDB, and WB-IDA. The projected commitments are as follows (in millions of USD):
IMF: 18 (2007), 36 (2008), 36 (2009), and 18 (2010)
IDB: 15 (2007), 0 (2008), 10 (2009), and 20 (2010)
WB-IDA: 25.2 (2007), 20 (2008), 20 (2009), and 20 (2010)
OPEC: 10 (2007).

Comment

¶11. (SBU) Despite President Ortega's rhetoric, the GON's economic team remains committed to reducing Nicaragua's foreign debt load. Outside of the Venezuelan debt, little additional debt is being added to the accounts. The GON is preparing for the time when it no longer qualifies for concessional loans under HIPC/IDA-only terms by working to develop an internal debt market which we will report

septel. End comment.

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